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DEPARTMENT OF STATE

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TO: : DEPARTMENT OF STATE

INFO: PARIS

FROM: : AMEMBASSY, ROME

DATE: June 1, 1967

SUBJECT: : CIVAIR: SIXTH AND SEVENTH SESSIONS OF US-ITALIAN IN ROME MAY 19 and 20, at 18:00 and 11:20 RESPECTIVELY

REF: : Rome A-1093

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Attached as enclosures 1 and 2 of this airgram are the Embassy's informal record of the sixth and seventh sessions of the resumed US-Italian Civil Air Negotiations in Rome, May 19 and 20.

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Enclosure 1
From: Rome
A-1105

SIXTH SESSION May 19, 18:00

Absent from Italian Delegation General Santini, Dr. Malinteppi

NOTE: Dr. Girolamo Contestablile was listed in error as a member of the Italian Delegation in the Embassy's first report (Rome A-1011). Instead, Dr. Maurizio Basso of Alitalia has been present at all six meetings.

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Ambassador Capomazza: Mr.Assistant Secretary, Gentlemen. Your intervention of yesterday evening has given me, of course, plenty of thoughts and I have been thinking that perhaps we ought to change our way. I mentioned already yesterday the possibility of an alternate proposal. You said yesterday that your last offer cannot be modified to our advantage. You also said we would commit a mistake in evaluating certain proposals on both sides and that we are perhaps out of reality when we insist on the sort of package I put forward, which I think is a fair and good basis of agreement.

We know there is between us a divergence on the way to evaluate the routes and the rights we are discussing. I am not going to try to establish who is right and who is wrong. But perhaps, I think, public opinion of both countries will be in a position to evaluate and assess why, rather than adding new possibilities to our air operations, we have been obliged to restrict them to third and fourth freedoms, as I said yesterday. At that moment, a few things will appear quite clearly. At least I am sure of the reaction of Italian public opinion, although I cannot make a good guess - nor perhaps should I - of the reaction of US public opinion. At that moment, it will be clear that unless we are ready to pay a very high price and give up all our claims, we will not be able to fly around the world as US carriers are allowed to do passing through Italy. They will perhaps think that in this bilateral negotiation you tried to make prevail (I do not say impose - that would be too strong) but you tried to have your policy prevail without taking into consideration the difference between your policy and that of other countries. Those more expert than the man in the street will think that while you have to benefit from the widest possible flexibility, we have to submit to the utmost rigidity of routes.

You have also said many times that this is a negotiation with a commercial base - an exchange of dollar values. We do not adhere strictly to this too-narrow mercantile concept, but we would not like you to think we are trying to bring home an advantage by simply appealing to your friendship to Italy and to the warm relations between us.

The line we have been following so far in our negotiating has been inspired by the sincere conviction that between two sovereign friendly states, reciprocity and equality of opportunity should be respected. We could not accept naturally to have to adhere to a policy which is not ours, if this would not be commercially of some advantage to us. Routes have commercial value, but so do Bermuda principles

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have commercial value, and so have multiplicity of carriers - for us, anyway.

In Washington, the US delegation, when we presented our route schedule, immediately put it aside saying our route request was fantastic and could not be evaluated. In Rome, you put forth maps, full of lovely geometric designs. To say what? That in the way we have put forth our schedule, it was difficult for you to evaluate it. If it was difficult to evaluate our schedule, how can we evaluate yours, which is so vast, so flexible and so elastic? You have only been able to evaluate ours when we reduced it to a point-to-point schedule, and because you are able to figure that we can only fly a few times per week. So when we are schooled about this necessity of appraising down to $100,000 the value of the exchange, and when we are told we are like children to want another toy or another piece of candy, we become quite annoyed because it is impossible for us to evaluate your schedule in your way.

This is the reason why I said yesterday that we were eventually brought to think of an alternative proposal (on this question of evaluation of routes I could say more before going further, but perhaps I will reserve it for a little later; something more specific than I have said so far, but which would not change the picture of what I have said before).

What I'd like to underline is that you should not make the mistake of thinking that we are satisfied with what we propose now. We have denounced the document that sanctioned a position of inferiority for us. We see that we are unable to get the minimum of concessions from you that could get us out of this category of permanent inferiority. We have therefore been faced with the necessity of presenting our proposal for the exercising in full reciprocity of third and fourth freedom rights. We can start with that. We would hope later to enlarge it and put in routes beyond. If you think you would like also intermediates, it makes no difference to us. But seeing how difficult it is for us to agree on the values of beyonds, I think this is the simplest way and the best way.

We've said we do not want to restrict your rights of third, fourth and fifth freedom on operations you have been carrying on to and through Italy. We take the same position now in presenting this alternate proposal - the proposal of making a third and fourth freedom agreement. We feel, though, that this agreement, which is the result of our failure to agree on broader terms, should be stipulated - negotiated - in full reciprocity. In other words the Italian flag carrier would serve the same points as the US carriers operating to and from Italy.

The basis of discussion would be to list all these points in the US and Italy. We would suggest the addition of Miami, Atlanta and Dallas to the points US carriers now serve from the US. because we have received petitions from those towns to have air connections with us. In Italy, in addition to those points now served, we would find no difficulty in adding Pisa, Turin and Naples and eventually others. If the US delegation would agree on exchanging rights to these

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points, then we will be willing to discuss capacity and multiple designation and we feel there would be good hopes to reach agreement also on this particular matter, which has for us important commercial value, in spite of the fact that the history of American carrier operations tends to diminish the apprehension of the Italian carrier. We can say through the study of past history that this is very true, but you have said that this is a commercial agreement, and in commercial agreements, you don't rely on the friendship of the other party; you establish what must be done in certain cases.

This capacity problem has been solved in various ways. One way, which is very widely used, is strict predetermination of capacity. Another way that the US uses with small countries who need economic aid from the US, is to pay them off in a different chapter. They are given money for other things if they will overlook the problem of capacity. These are countries that have no airlines or only local airlines. A third way, which should be indicated as already approaching the kind of category to which we belong, is the way you have used with our British allies: the way of the US/UK aviation agreement as amended only last year. This is another way, a more aristocratic, open-minded way and that would have been the way we would have preferred this new agreement. You know the way very well. I don't want to inflict on you the re-reading of your declaration on why you do not wish to repeat the British way. Your declaration was not very convincing. I got the feeling that you were embarrassed by it. In any case this is a third method to solve the problem of capacity. Perhaps there is a fourth way: that is to pay for capacity with routes.

If you think our last proposal can be made to work, and could be the basis for an agreement, perhaps we can proceed. I am sorry to have perhaps spoken a little too loudly but I can't help being all myself when I have a subject that touches me so closely as this air agreement, into which we are putting so much work and so much diligence.

Mr. Loy: Mr. Ambassador, Gentlemen: I don't think I am going to try to deal with everything you have said, but I will talk about the most critical points. All governments, yours and ours included, are concerned with the requirements of public opinion and the requirement of being able to face the public - especially relevant parts of the public - in a defensible posture, and I can certainly understand your concern with that element since you are all responsible officials of your government. However, regardless of whether the proposal of May 17 is a good one or a bad one, let me state as flatly as I can that unless the problem is artificially created that problem does not exist for you. It is hard for me to take that seriously. You have toppled the pillars of Hercules across the river Styx or however it is that the flowery language of your journalists puts it. You have certainly accomplished the most visible goal and vastly expanded the possibilities of the Italian carrier. Even if you had a commercial problem, I cannot honestly believe you would have one of public opinion. I wish the samewould be true for us but I won't bore you with our problems in this regard - we will just have to take care of them ourselves.

You mentioned various kinds of agreements, and we have never talked very much

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about the agreements we have with the less developed countries - particularly in Latin America where we have most active air relations. There is one country where we have no agreement at all, and where we are in the process of negotiating one. There are innumerable examples of countries with air carriers that are relatively new and weak (although most of them are relatively healthy) and with those countries we have agreements and we operate under Bermuda terms. I'll admit that in some instances when we have the right to operate under Bermuda principles, we think it is our best interest to act with restraint, because of a possibly excessive impact on the other country's carrier. But that question of impact is part of the Bermuda principles. We have agreements of this sort that we have made recently in Peru, Chile, Equador and so on.

I want rather to comment on your suggestion for a third and fourth freedom agreement. I am being quite sincere when I say that all of us on this side of the table recognize that you and your colleagues are skilled negotiators in the best sense of the word; that is that you seek to find ways of agreement which will also be most advantageous to you. I accept your proposal in that spirit - it is an imaginative idea because as you see it we are stuck in our other efforts. Unfortunately, I guess it is fair to say that it seems to us to be a mistake and a most uninteresting idea, and not one I think we could accept or be interested in accepting. Without even trying to define the type of agreement precisely that it would be, it is first of all a massive step backward in the development of international air transportation. At a time when world air operations are becoming wider and more complex, ours would become more circumscribed. I don't think it is desirable. It is not in line with the concepts of the Bermuda-Chicago framework which clearly contemplates operations beyond the territory of the other country, as well as intermediate operations if the traffic warrants that.

As I said yesterday, while we have never, for better or worse, rightly or wrongly, taken the position that we must carry a precise percentage of the passengers we contribute, we are not interested in curtailing our possibility to carry them where they travel, so that I think the proposal is ingenious but it is my view, and I feel this quite strongly, that it leads us towards a dead end. I don't think we would come up with an agreement. I realize that puts us back where we were - maybe in the middle of yesterday's discussion - and that is sort of ticklish spot to return to but my feeling is that <u>if</u> there is any agreement to be made at all, it will be made by starting from the route exchange we proposed May 17.

Let me add one more thought about that. I think you used yesterday the concept that the route proposal we made on the 17th was anti-climactic, illusory and deceptive. I think that is an unfair characterization. Not because we are thin-skinned, but because if you really believe that, then either on the one hand we are in serious trouble, or on the other hand the only way out is to withdraw that offer. I think it unwise to characterize that kind of change in the historic

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position - and that kind of offer - in that manner. You can use any adjectives you like but that was a major concession of major value. All I heard was that it would be a little longer before you could operate it and it might be. In any case, either the importance of the package wasn't understood, or your remarks were simply polemic and are not to be considered by us.

Now, maybe, a place to start is to ask you to look again at the proposal of May 17. You have several times talked about the problem of structuring our routes, and I stress that except for direct statements on Australia and East and South Africa I still don't know what you want in this respect. But my feeling is that either we start from that package and you tell me what you mean by structuring our routes, or else you describe some other package that excludes the round-the-world and substitutes something else. We will look at that package, but as I said, that is a direction in which I see some hope, but the particular suggestion you made sort at the very end of yesterday, I don't think is going to lead us to an agreement. That is as ingenious as I can be, and I'd be interested to know if you have any reaction.

Ambassador Capomazza: If there is a person who does not like to waste time, that person is me. Time can be money, but it also can be pleasure, delight, there are so many wonderful things to be done with our time. I don't honestly think we should brush my proposal aside as the Assistant Secretary did. Please don't think our proposal is a tactical proposal. It is the beginning of an agreement. Suppose we had no agreement at all. Then we would start like that, We would find points we would serve for third and fourth freedom traffic. I think that if we can make an agreement on this part of a larger agreement, then we could go on. I don't want to restrict you; we understand that air transport is in a moment of great expansion.

We don't expect that the third and fourth freedom agreement would go on for many years, but for the next year or two it would be useful, while we continue to negotiate to enlarge the agreement. So it should not be brushed aside as a tactic. If we agree on the points we can serve in your country then we could see how we could enlarge the agreement with beyonds. Presentationally, we can explain that we had difficulties in arriving at an agreement on beyonds and decided to do this rather than stop flying altogether.

You have in your list of actual operations 12 points in your country. I know your theory that you do not have to bargain to leave your own country, but we doubt whether that theory is correct. In any case 12 points plus 3 is 15; visually we can add many more Italians towns, Venice for example, or Palermo. In all honesty I do think this would be a good exercise. Perhaps we would not arrive at full reciprocity but at least a good reciprocity, and then later we could add points beyond and submit intermediate points. Because this bring us back to your UK agreement. That agreement is the last important agreement you have amended. You made it with the UK as the embodiment of Bermuda principles

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(although I have explained to you before that your real Bermuda agreement is with Italy) and now you have amended it in 1966. You chose this form of agreement in order to establish a method, a way. This would be the same way. I don't see any other way out.

But if we are talking about your way, let us stop where we are now and only talk for two or three days about structuring your routes and then look at it again. Let us stop for a moment speaking of Italian routes and structure your routes beyond. We are looking for ways out. Perhaps in the course of that we can discuss the points that we want out but you say must be in. Let us talk of that. Let us put our proposal in the frigidaire and talk about your routes.

Mr. Ley:

Well, obviously from what I have previously said my feeling is that if there is progress to be made, it is not in the direction of a 3/4 freedom exchange, so I would say the logical place to turn is the place where we were before, which we regard as a package - a route schedule for you and a route schedule for us - both of which would be described. And, I still don't know what you mean by structurize. That would be a worthwhile question to ask. I put in the caveat that, as we have explained before, the geography of the world raises difficulties in how respective routes can be described, but we are certainly prepared to hear what troubles you about our route proposal.

Ambassador Capomazza: We are stuck less on substance than on procedure, although sometimes procedure is substance. You offered this package. We rejected this package for two main reasons: First, in a procedural way, because of the way it was presented. We were working on a package and then suddenly everything changed. Although your package does include a very important route for the future it lacks other things we think essential. That is one reason. Especially then I point out that in the new package you re-introduce two points we find critical - Africa and Australia. Then you almost confront us with an ultimatum - you have to have Bermuda principles. We may, but we put a price on them. Bermuda principles have a dollar value for us irrespective of past history.

Then we came to the point where we are now, and we tried to figure on how to move on. And we made our proposal which is not a smoke screen. It is an approach, to start with points in the US on a reciprocal basis. We talked about this in Washington: rights to fly the same routes you fly. This too, can have a price. Suppose instead of ten points, we only fly five. Then we need compensation. This reciprocity is a principle from which to start. In your proposal you give us four points while you have 13. We said that it was all right for you to fly around the world through Rome, but in your proposal, even if you dropped Australia and Africa, you have two around-the-world routes because you can fly back from the Philippines. It is difficult to find agreement, but we have to find a way out. Let us start with points in the US considered on full reciprocity. I have nothing else to add.

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Mr. Loy: I have something to add. I resent the notion that we are such clumsy negotiators that we cannot be understood. We have asked ten times what were your priorities and we got a written response that I will have the courtesy not to discuss in public....

Ambassador Capomazza: I don't care if you discuss it in public.

Mr. Loy: Nobody is suggesting that it is a tactical proposal. Its just not an interesting proposal at all. You suggest that it is the kind of thing we would do if we had no agreement now and we had to start from nothing. I say that if we had to start from nothing, the essential thing is that we would make an agreement that both parties would like. As for this proposal we would not be interested in it and we would not sign it. I can sit here as long as anyone else talking back and forth but if we are going to come to an agreement you have to be realistic about the routes you want. I asked you as responsible negotiators for your government not to paint yourself any further into a corner, because that way there is no way out.

It seems that every time we lay something to rest, the corpse rises again. I don't know how many weeks ago it was you said the only reason you wanted a UK agreement was to be sure certain points were excluded from our routes. Now we are at the point of having to bargain for the right to leave the US. I don't call this progress.

Ambassador Capomazza: I agree. But when you re-introduced Africa and Australia, which we indicated we could not give, you re-introduced the problem of how to deal with it.

Mr. Loy: That is patently not the case. There are six different ways you can do that. I don't know where we are going. The only response I have heard to our proposal of May 17 is that on the one hand in spite of route rights included for Italy it is illusory, anti-climactic and deceptive. And the other is to come up with a weird backward step. That is not the way we will come to an agreement. It is quite clear to me that you are under some sort of pressure to get for Italy what we put on the table, to add three points to the US two routes to the south, and cut out Australia and East and South Africa for us. Is that your bottom? We might as well know it on the 19th as on the 31st. We are not going to sit here and sign a bad agreement.

Ambassador Capomazza: Nor are we! You have had it good for twenty years. Now we can perhaps have it good in 1971, and besides this there is only Los Angeles which we got in 1960. And if you knew how difficult it is to make pressure on me - from behind or from the front - you would not worry about that aspect. The only pressure that affects me is my conscience. I have been appointed by the Council of Ministers with plenipotentiary powers to sign an agreement, and I will sign an agreement as soon as I see a light. Until I see a light I will make no agreement.

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I have full powers and I hope you have the same.

Mr. Loy: Well, Mr.Ambassador, why don't you tell me how you justify a different agreement as fair. Let me just add that as we see we are talking about an agreement worth in the neighborhood of $70 million for Italy versus $63 million plus for the US.

Ambassador Capomazza: Mr. Assistant Secretary, I think what divides us is the route schedule, and especially the very high price you put to our routes and the very low price you put on yours. On these figures one can dispute for a long time, and I am not going to dispute them at this late hour in the evening. But let me say one thing about these figures. You said your routes are worth $63 million per year. You also said you used our method and used General Santini's figures to calculate your beyonds. Now General Santini's figures for one year - 1965 - were $14 million. You now say that your beyond routes are worth $15.5 million, which means only $1.5 million more to account for all this colossal operation you are planning to make. If you knew how to fly, you could make a lot more money than that out of the new routes.

I repeat that I cannot get into a dispute about dollar value, mostly on account of the flexibility and generality of your route schedule. I make another suggestion. I have no objection to your discussing my letter in public but I leave to you the right and the initiative to bring it on the table. I think it would be a decent basis for reaching an agreement. I also think about dates. Our operations don't start the day after the agreement is signed but four years from now. I suggest we meet tomorrow afternoon. Oh, I am told that is a Saturday.

Mr. Loy: We will be prepared to meet you tomorrow morning at 10:30.

Ambassador Capomazza: All right.

Mr. Loy: I have a few words before we break up. First, with respect to your letter, I don't care about the contents of the letter,but I do care about the principle that if there is to be a private exchange, that it remain a private exchange. So I would suggest that if you have a proposal it is best to introduce it as a document across the table; that would be my preference. I have to admit I did not quite understand your remarks about the $14/15 million. I would hope we could go into that tomorrow. I must say quite honestly that in the thousands of words that have flowmacross the table (and I am fully aware that I have held up my 50%) the only solid things I have heard that are on the table are discussions of values, and I don't see how we can avoid them.

You say that you will be able to make a deal when you see the light. I suggest in all honesty that if you analyze our proposal carefully you will agree that the light is shining brightly. I don't see how you can conceivably say that we are trying to keep Italy in some sort of status of inferiority. It is just not the case. The

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agreement we have proposed does not do that - far from it.

By the way, I think I have to correct my statement. Rather than $63 million plus, our route is valued in the neighborhood of $65 million. That was my error and I apologize. But we are prepared to discuss in some length and depth this question of values and we are not trying to bamboozle anyone. We do have parity and fairness and we think we can demonstrate to anyone who asked that it is fair. We will be prepared to demonstrate this tomorrow at 10:30.

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Enclosure 2
From:Rome
A-1105

SEVENTH SESSION MAY 20, 11:20

NOTE: Absent Dr. Malintoppi

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Ambassador Capomazza: Mr. Assistant Secretary. Before we take up again our not very amusing negotiations, perhaps I would like to say as a small consolation to you what happened to Varalda and me last night after dinner while we were taking a short stroll on Via Veneto. We got into a very heated argument with some Agitprop characters in which we found ourselves vigorously defending the US policy in Vietnam. It was a very heated discussion and you would have enjoyed hearing us.

It is quite clear that our negotiations have reached a stalemate. I don't know what or how many causes are the reason for this, but perhaps the most important is the question of dollar values and evaluation. At the risk of repeating myself I want to say once again in more detail the reason why we don't on our part pull out figures. It seems to us important to say this, because of your insistence that this is a dollar exchange. We maintain that although it is commercial agreement we are not in a position to table figures for the future. We have only past figures to go on and these cannot be assumed as a base for the future.

For example, in 1964, all of a sudden you raised your frequencies by 43%. You had the right to do so. We had no machinery to stop this. Suppose we had assumed the year 1963 as a base, what would have happened in 1964 when you raised your capacity 43%?

The indetermination of your points and your routes and the fact that we don't know how many frequencies you will fly makes it difficult for us to establish the future value of your routes. You want to maintain in a new agreement your freedom to leave from any point in your territory. This is a freedom we oppose; we'd like to see which are the points from where you are going to operate. It is enough to give one example to destroy any calculation that does not take into account specifying these points. Lately, as you know, PanAm was authorized to have co-terminals on both coasts. Such a decision is enough to upset all calculations of future value and to nullify or change all that has been done before.

The same is true for intermediate points. The indetermination of intermediate points and the ability to connect them with points beyond which are also undetermined, brings such a margin of uncertainty in the future operations of US carriers that it makes it very difficult to accept as gospel the figures you have tabled in the past days. In other words, it is not possible to arrive at a determination of figures when the capacity, frequency, and number of carriers is undetermined on the part of one of the parties to the agreement.

Nor can we really accept the figures, the calculations of the future, because we really think it is important to give a price to the long-haul lines that operate all around the world through a point like Rome. It is quite different to evaluate the dollar value of Rome-New York so many times per week. It is another thing entirely to evaluate a round-the-world route fed by so many intermediate and beyond points, and returning to such a rich market as the US.

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To sum up, there are three reasons why we cannot make these evaluations: 1) indetermination of your routes; 2) unspecified points of departure of your carriers; and 3) lack of formal renunciation on your part of the East and South African and Australian routes. These points of disagreement do not permit us to give a proper evaluation to routes when we also have no determination of capacity. Now, if we knew these routes well, if they were clearly defined, then the problem of capacity would lose a great deal of importance. The undetermination of routes means a necessity to regulate capacity. Freedom of capacity means determination of routes.

It is because we are in such disagreement on these philosophical points that, to our sorrow and against our will, we presented the proposal the other day that we start from scratch, to use the phrase of my distinguished opposite number. If we are starting from scratch, we see that the only way to start is to consider an agreement that would take account first of all of third and fourth freedom operations.

This does not make us happy, or you happy. We again offer to table this proposal. We think it ought to receive from you more serious consideration -- perhaps some part of your Sunday - since this proposal is made with great seriousness and earnestness. It should not be turned down just like that, especially since we have already reached the 20th of May.

We are open to any suggestion you may have about this kind of agreement. We would start from the points you serve and we serve. The points you serve in the US and the points we serve in Italy. You can add up as many points as you like in the US and Italy and talk about them. It should be based on strict reciprocity. This kind of agreement cannot be made but on the principle of reciprocity. Countries like Belgium and Austria have insisted that we serve only one point in their country although they serve three points in ours. So we serve from these three points also. The same should apply to the US. If you come to Rome from 7 to 8 US towns we would have the same right to go to the same 7 or 8 towns.

It is easy to make clear why this policy is just. Suppose you go New York-Rome and we go Rome-New York. That is one line we both serve. If we keep Rome-New York while you leave from other points around New York, such as Philadelphia and New Haven, you take traffic away and our traffic shrinks in dollar value. This is the reason why those good businessmen that are the British made this kind of agreement. I'd like to start with the third and fourth freedom agreement and extend it later. We could agree before May 31 on third and fourth freedom, and later examine the points beyond that we could add. I don't think at this moment that with the differences we have and the stress of time that this proposal, however unattractive, should be turned down without consideration. I do not see any way out using the proposal you put forward. That package we consider based on calculations that assessed as a fair yardstick, because the figures and numbers mentione likely to be found wrong after a review of the situation.

So in reference to dollar value we refuse a package based on dollar value. So

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ask you, dear friends, to meditate on this and give it serious consideration. Perhaps we can talk again in a more serious way on Monday, I have nothing else to say at the moment.

(15 minute recess)

Mr. Loy: Mr. Ambassador, I would like to cover a couple of things you mentioned. The first general heading of your remarks was to the effect that the Italian delegation had not produced any values, and if I understand correctly could not rely on, or at least not rely excessively on, values, because of uncertainties involved in that approach. I would like to say as a general proposition we have always said we could have difference of view as to the precise valuation of the markets, both present and potential, but two things strike me: First, when you compare this kind of discussion we are having and you consider the validity and the historical base of the data we have available, and compared that to the kind of statistics and data available in other kinds of commercial negotiations - for example those involving Kennedy Round or GATT discussions- it is incredible how well off we are and how precise we can be and how good our estimates can be. I think we should focus on this rather than on the absence of data or on excessive speculation. We are in very good shape. We have to make judgments in our estimates, but not in a vacuum.

Second, I would be perfectly prepared to consider other approaches if they promised to be more acceptable, more likely to lead to a fair resolution, if they promised to involve less guesswork, but I haven't been offered that and I don't think it exists. I reiterate what I said last night, when all is said and done one of the few solid things we can talk about is values. Let me add a postcript: I don't think we are the only ones interested in values. It struck us as interesting that you were not too interested in Washington as a point in the US; I don't know what that means unless it means that it does not have much value. It is our capital, and in size and population it is relatively close to Rome. Why New York city? Why not go to Japan some other way instead of through the US? Instead of through Panama, the Caribbean, or Mexico, you want to go through the West Coast because the value is there. To sum up that point: a) I don't know any other way to negotiate except on values; b) I find it unbelievable to think that only we really think that.

To sum up again, I have not heard of a better or fairer way to determine a fair agreement than to talk about money.

Let us leave this aside for a moment. I'd like to say something about the events of 1963. (I think in general we both have been wise and have saved time by not going too much into history in these talks.) You suggest that the events of 1963 prove that values are risky and are really no mechanism to guard against excessive increases in capacity.

To deal with the first point, whatever the case would be if we only looked at one year, we don't: we have 20 years to look at. You say we increased our capacity

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43% in 1963. In that year you increased yours 14%. The next year you increased your nonstop capacity 63% and your one-stop capacity by 40%, yet in that year we decreased our non-stop flights. It is inconceivable to me that we can sit here in 1967 and say the last 20 years don't tell us something about the value of the routes between the US and Italy. Whether we increased a lot in 1963 and you increased in 1964 is not relevant and does not prove we can't use history in considering an agreement.

With respect to machinery for consultation, that is in the agreement. And yet in 1963 when the total increase in passengers over prior years was well over 30% between Italy and the US, and while it is not up to me to sit here and say whether the increase in frequencies by US carriers was excessive or not, all I can say is that Italy did not avail itself of the opportunity to say it was excessive.

So that once again let me make clear that our view is that what we aim for is equality in revenue-earning potential of the carriers of our respective countries, and I have not heard of a better way to assess whether we have fair opportunities than through dollar values. Reciprocity trips easily to the tongue. But without more substance given to it, it does not mean much. We could say, for example: you carry Italians to the US and we will carry Americans to Italy. We could say: you leave from any place in Italy you want and we will leave from any place in the US we want to. There is no magic in picking one form of reciprocity and calling that the golden rule. To come back to your reiterated proposal, let me restate it as I understand it. You say you don't seem to get any place with the proposals on the table. You wish to repeat a proposal made several days ago, to wit: that we have an agreement for service between the US and Italy under full reciprocity - by which you mean that if the US carriers served as a point of departure city X, Italy would have the right to serve City X as a point of destination, and so on with cities Y and Z on both sides of the ocean.

You added that if we wanted intermediates you would consider that. That is how I understand your proposal. You said it is not an approach to be brushed off. I agree that it is not appropriate for us to brush off any proposal seriously made. We haven't done that. You first suggested it two days ago. We have considered it carefully, discussed it among ourselves, and reported it to our Government in Washington. Yesterday, we told you not lightly but after sleeping on and considering it, that it wasn't of interest to us. And I'd like to repeat that: it is not of interest to us.

Now, if what you are saying today is - and I am not sure you are - "I ask you to transmit to Washington this proposal as a proposal of the Italian Government, and I ask you to get a formal response," I'll have to do this. I will tell you now that this delegation will recommend that the proposal be rejected out of hand; I will tell you right now that I can't see that kind of proposal finding support in Washington. But I'll do what you ask. My only concern is that it will have wasted a little more time. If we leave it that way today we will, next time we meet, not be any nearer agreement than today. I find that troublesome.

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So, I'll do in this regard what you want. But I suggested to you that it is May 20 and not time to go down into culs de sac; what we have to seek is an agreement both of us like, or that both of us dislike equally. But there is no use spending a lot of time exploring an agreement we find totally objectionable - we can't sign an agreement then - and then we are faced with the problem of a lack of service between our two countries.

My suggestion is really the same that I made last night: that we not pursue this approach because it won't get any place and is a diversion. But as I also said, if you want us to transmit it, we will do so. I don't know where that will leave us when we meet again.

Ambassador Capomazza: Gentlemen, of course one can go on arguing for hours, but that does not bring us any nearer our goal. You for example say, we are so keen on the notion of reciprocity that one way to reach that would be for you to carry Americans and for us to carry Italians, or for you to serve your capital and for us to serve ours. But another way would be for both of us to serve the same routes with the same frequencies, and this system is applied every day everwhere in the world. This is just to show that we can go on and on. The fact remains we think the best way is to serve the same routes and that then there is definitely more possibility of establishing reciprocity.

Anyhow, when I advanced this alternative I pointed out that it is only an alternative, and not a happy one, but I see no other way out of the stalemate. We are dealing with the US delegation. It is up to you, not us, to decide whether this proposal should go back to the State Department. All we say is we see no other way out.

(15 minute recess)

Ambassador Capomazza: Gentlemen, in order not to waste more time, and so that we can have some lunch, I am going to say this. I was trying to find in the record of our discussions of yesterday some words the Assistant Secretary said when we were dissatisfied with our route exchange; oh yes, "If you won't believe if I say we can't unbalance this agreement in your favor, we might as well quit."

I know that in the heat of discussions we sometimes say words that go beyond our thoughts. But anyway that was said.

You have to read our alternative in the light of that. Before you quit, we are proposing this 3/4 freedom agreement. This may be a way out, not a brilliant one, we are both dissatisfied with it, it is not our choice, but it is the only proposal at the moment we can make. In view of the shortness of time we will try to make a document we can table Monday. Then it will be up to you to decide what to do with it. It must be

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clear, however, that we do it because we don't see any other way out. You can indicate all the points in the US and Italy you want to serve and any intermediates you want. We would leave the beyonds for later. Because we have not yet succeeded in reaching an agreement on beyonds, we could continue negotiating three or five or six months or a year, but in the meantime we would have an agreement. I suggest we adjourn to Monday at 10:30.

Mr. Loy: Mr. Ambassador, I am not satisfied to leave matters like this. I think there are a couple misconceptions we owe it to ourselves to clear up. You have made a proposal (I might say I haven't the slightest idea why we must have it in writing) involving elements of reciprocity. You say that if we cannot do anything else we should do that, because it seems fair. Under some circumstances, and with respect to an exchange between some countries, it might be fair. For example, between countries of equal size, between countries of equal traffic-generating power, or between countries of equal geographic location. None of these elements is present in this particular case.

Now, you said you weren't happy with the proposal you are making, but maybe it was the best you could achieve, because you felt some agreement is better than no agreement. Let me stress, Mr. Ambassador, that that is not the view of my government. I am not authorized to sign or agree to any agreement because it is better than no agreement. The US is not prepared to sign a disadvantageous agreement. It is prepared to cease services between the two countries - cease - rather than do so. Now it may well be that you and I can't find an agreement that both of us find acceptable enough to live with. But you do not further these talks in a constructive manner by proposing something you consider the sort of measure which would get us over the hurdle of May 31, however unattractive the measure might be. We aren't going to agree to just any agreement. I would be personally very concerned about the position of the US, and in particular of the US delegation, if we have not put on this table our proposal of May 17. That proposal adds some $16/17 million value to the Italian side of this package.

That is the posture in which we find ourselves. Your only response has been, "Fine, I want Miami, Atlanta, Dallas, beyond to Mexico, beyond to Latin America via Panama or alternatively we will propose this 3/4 freedom agreement." That is an incredible response and I suggest if you really intend to promote these talks by working Sunday, it would be fruitful to use that time to examine in what way our May 17 proposal is inadequate. I think you will find it eminently adequate; maybe that is enough. We will see you at 10:30 Monday.

Ambassador Capomazza: Yes, 10:30 Monday. Before we disband, I would like to restate for the sake of understanding, and also because in the last three or four days we have been lost into other arguments, the reasons that promoted our rejection of your proposal. It was very unlucky, and the superstitution about the 17th of May has been found to have a basis in life. I say, and I repeat, that of course there is substantive value in a round the world route and it would prove that Alitalia was one of the few

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companies that could fly across the Pacific. But this concession must be assessed - evaluated if you like - under the fact that Alitalia will not be in a position to fly the route before 1970 or 1971.

Mr. Loy: Can you clarify why?

Ambassador Capomazza: You said yourself that it cannot be done quickly without organization or preparation for a route so far from home, with equipment problems, etc. It takes a certain amount of time. And then Alitalia itself has other priorities elsewhere. That is why they would not be able to fly before 1970/1971. By that time some of these 18 other companies that have asked for a route will be flying, and that will shrink the value of the route for Alitalia.

Mr. Loy: Did I understand you to say that Alitalia would be too busy to fly the Pacific because it has higher priorities elsewhere?

Ambassador Capomazza: For whatever reasons; I don't have to say the reason. For planning purposes perhaps. But we have said all the time it would be 1970 or 1971. That is one of our main objections. For some reason you think this attitude has something catchy in it and you refuse to take it into consideration.

Mr. Loy: Maybe you should have denounced the agreement in 1969. I don't see why we are supposed to revalue the route because Alitalia does not chose to fly it.

Ambassador Capomazza: Why not? You say this is supposed to be an exchange of values but it will not be correct until 1971. Second, what about your requests? You won't say you will leave out Australia and Africa, the Philippines or mainland China, but the only gain for Italy is Los Angeles which we had already in 1960.

Mr. Loy: Wait a minute. In 1960 Italy made a bargain, wise or not, but it got out of it a route and it made certain commitments. For reasons best known to Italy you decided not to go through with the commitment and therefore did not get the route. There was no welshing here. There was a quid pro quo which Italy declined to pay. That was all right with us. But letus get off the notion that Italy had Los Angeles.

Ambassador Capomazza: This simply proves that the quid pro quo was too high and we did not want to pay the price.

Mr. Loy: The fact is that you did not have an agreement for Los Angeles.

Ambassador Capomazza: We had an exchange of routes. But we said we would not [illegible] with past history. But we let the concession lapse like that because we found the conditions attached to it were too high. We would be interested in flying to Tokyo in 1970, but if the price is Bermuda principles, multiple designation, Australia and South Africa, that is too high a price. We would have to give up Tokyo now as we gave up Los Angeles in 1960. That is why we suggested the 3/4 freedom agreement.

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The conditions attached to your package make it much less palatable than you think. To the man on the streets it may appear that Italy has refused to fly Los Angeles-Tokyo and that it is Alitalia's fault. People will say how stupid the Italians are and how stupid is the chief of the delegation. But the conditions are too high-priced to be paid.

Mr. Loy: They are conditions that have enabled Alitalia to capture more than half the market between Italy and the US. They are a fundamental factor in Alitalia's growth. They have helped make Alitalia the seventh international carrier in the world. They are conditions under which all the other major European powers operate to the US and they have in no way imperiled Alitalia's growth or financial health. I can understand a government wanting to get out from under conditions that are injurious, but none of this is involved here.

Ambassador Capomazza: We don't feel injured. It is just not convenient, and why is it that we never got the famous "beyond New York to be agreed on later?" What was the quid pro quo there? As if we had no questions except to update our route schedule. We had better adjourn.

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Mr. Loy: I don't think we are making much progress, but it is fun.

Ambassador Capomazza: I know much better fun than this. I know things that are much more amusing and pleasant. Anyway we will see you on Monday.

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